

California and SCHIP Federal Reauthorization

SCHIP funds in California pay for health coverage for more than 1 million formerly uninsured children, and around 8,000 pregnant women. California's main SCHIP program, called "[Healthy Families](#)," has over 835,000 children enrolled, more than the combined total of the country's second and third largest programs in New York and Texas. In addition, more than 250,000 lower-income children receive health coverage through Medicaid ("Medi-Cal") with SCHIP funds. The average family income of a child in California's Healthy Families program is 163 percent of the federal poverty level.

Why California Needs SCHIP Funding Urgently

According to the Congressional Research Service (CRS), 21 states (including California) will run out of federal SCHIP funds in fiscal year (FY) 2008 if the program is level funded (See Attachment A for a list of these states). Under this scenario, CRS estimates California's federal funding shortfall could be as high as \$342 million. The State's internal estimates are a bit lower, assuming a shortfall of at least \$265 million under a level funding scenario.

The [California Health Care Foundation](#) and the CRS both confirm that level funding would only provide enough money for California to operate its Healthy Families program for nine months, or until June 2008. Congress and the President have not indicated they will provide any increase in funding as part of their temporary SCHIP extensions and given the lead time necessary to appropriately manage enrollment, California is currently taking the necessary steps to deal with a federal funding shortfall. In order to reduce expenditures to control for the \$265 million federal funding shortfall, *California may be forced to disenroll an average of 66,000 children per month – nearly 600,000 children before September 30, 2008 – in addition to freezing all new enrollments, beginning January 1, 2008.* If the State were to disenroll children in January 2008, the program would need to mail disenrollment notices in December and have the necessary systems in place for disenrollment.

A 1-Year Extension of SCHIP with Flat Funding in FY 2008 Forces California to Disenroll Hundreds of Thousands of Children to Make Up a \$265 Million Federal Funding Shortfall

California needs \$1.23 billion in federal SCHIP funding in 2008 to meet its enrollment projections. If federal funding remains flat in FY 2008 (\$790 million), the state would need to reduce program expenditures by at least \$265 million. As this scenario is inevitable unless the funding situation changes, in order to manage for the pending shortfall, staff of the Managed Risk Medical Insurance Board (MRMIB), which administers California's SCHIP program, have recommended emergency regulations be adopted to allow the Board to establish waiting lists and disenroll children if adequate federal funding is not provided. Beginning January 2008 an average of 66,000 children per month would need to be disenrolled – nearly 600,000 children before the end of the federal fiscal year (September 30, 2008) – to make up for the federal funding shortfall. (See the following for table details.) Without such actions, the State would completely run out of funds by June 2008, effectively closing to the program to everyone for the fourth quarter of FFY 2008.

Number of Subscribers in California's SCHIP Program ("Healthy Families") to be Disenrolled by Month and Corresponding Number of Months of Capitation Savings

Month for Disenrollment	Number of Subscribers to be Disenrolled at Annual Review	Months of Capitation for Calculating Savings
Jan. 2008	56,657	9 months
Feb. 2008	56,214	8 months
Mar. 2008	58,012	7 months
Apr. 2008	68,906	6 months
May 2008	68,272	5 months
Jun. 2008	71,635	4 months
Jul. 2008	69,104	3 months
Aug. 2008	70,503	2 months
Sept. 2008	76,649	1 month
Total	595,952	
Monthly Average	66,216	

The House Joint Resolution passed by Congress on September 29, 2007 provides funds to States until November 16, 2007. In order to fund California's Healthy Families program through that date, the State will exhaust all of its remaining carryover funding from prior years. Currently, California has no SCHIP funding after that date. Thus, after November 16, 2007 California is completely dependent on future Congressional appropriations.

State law requires the [Managed Risk Medical Insurance Board \(MRMIB\)](http://www.mrmib.ca.gov), which administers the "Healthy Families" program, to manage enrollments within available resources. Consistent with that responsibility, MRMIB staff has presented the Board with proposed emergency regulations for adoption to authorize the establishment of waiting lists and disenrollments if it becomes necessary to do so in the near future. The most recent proposed regulations being considered by the Board can be found at the MRMIB web site: www.mrmib.ca.gov under "What's New". The Board will meet November 5, 2007 to consider the regulations.

More Short-Term Fixes Will Not Solve the Problem. It is important for federal policymakers to understand that states cannot make program changes quickly. Now that SCHIP programs have matured, with a national estimated enrollment of six million children, many states need to change laws and regulations in order to make significant programmatic changes. That is why it is critical for states to know their funding several years in advance. Presently, states do not know their funding allocation even for the current federal fiscal year. For California to continue operating under its current SCHIP rules, federal legislation must provide sufficient funding for the State for as long a period as possible.

Moving California Children from SCHIP to Medicaid is Not a Viable Short-Term Option to Cope with Inadequate Federal Funding. Some have suggested that a state facing inadequate federal funding can - and should - move lower income SCHIP children into Medicaid. This is not a viable short-term strategy for California.

Healthy Families was specifically designed as a stand-alone SCHIP program, separate from Medi-Cal. When creating Healthy Families, California legislators opted for a more competitive, private sector-based health care coverage solution rather than a wholesale expansion of federal entitlement programs. As a result, children cannot be moved from SCHIP coverage into Medicaid without both changing State law and making complex operational changes.

One significant barrier, for example, is that county workers determine Medi-Cal eligibility, while a private-sector vendor determines SCHIP eligibility with no involvement from counties. In order to move children from SCHIP to Medi-Cal, state law would need to change and then 58 counties would need to modify their computer systems, operational procedures, and enrollment processes for children. Each county's systems, procedures and other issues are unique. Such changes would likely take several years before they could be fully implemented.

What California Needs in SCHIP Reauthorization

California needs \$1.23 billion in federal funds for FFY 2008 to support existing and projected caseload (no eligibility changes are envisioned under this estimate). This is \$440 million more in federal funds than California's allotment for 2007 (\$790 million). Furthermore, the State's allotment would need to grow by an additional \$100 million to \$200 million annually thereafter to simply maintain current eligibility standards.

\$60 billion total SCHIP funding for all states is needed. According to a recent California HealthCare Foundation report, the national SCHIP allotment would need to be in the \$60 billion (total), or \$35 billion (new), range in order to ensure California's funding needs would be met over the next five years.

To avert disenrolling up to 600,000 children, California needs to know now that it will be receiving the federal funding that it needs for the current fiscal year.

Reauthorization should maintain state flexibility for setting income eligibility levels appropriate for state circumstances. Existing California law establishes eligibility for uninsured children with family incomes up to 250% FPL (\$42,930 for a three-person family) in Healthy Families. Because of California's high cost-of-living, lower rates of employer-sponsored coverage for lower income working people and relatively high rates of uninsurance, even this level is modest. Under our current 250 percent eligibility standard the average family income for a SCHIP enrollee is 163 percent of the federal poverty level. Governor Schwarzenegger and the California Democratic legislative leadership have introduced plans to increase SCHIP income eligibility to 300% FPL. The requirements released by the Centers for Medicare and Medicaid Services on August 17, 2007 would make such an expansion impossible and should be repealed or greatly modified.

Reauthorization should maintain a state option for covering pregnant women. The only adults enrolled in California's SCHIP-funded programs are pregnant women, as authorized under current law and approved by the Bush Administration.

SCHIP in California, called “Healthy Families”, Is Not Government-Run Health Care

Private Sector Competition Provides Broad Choice for Beneficiaries and Makes Healthy Families Cost Effective

All Healthy Families children are enrolled in health insurance plans. More than 75 percent of them are enrolled in private health plans, such as Blue Cross, Blue Shield, and Health Net. The remaining children are in HMOs operated by public entities.

Most families have a choice of seven health plans, and 99.7% have a choice of at least two plans, depending on where they live.

Through contracting with both commercial and public plans, and negotiating rather than setting rates, Healthy Families has kept its annual cost increase to about 3% -- well below national health costs trends.

“Healthy Families” utilizes administrative controls to reduce private insurance “crowd out” – the program will not enroll a child that has had employer-sponsored coverage within 3 months of the family’s application to the program with limited exceptions for hardship.

A 2002 study revealed that private sector insurance coverage crowd out stemming from Healthy Families was around 8 percent of enrolled cases in California, 75 percent of this because coverage for a child outside of “Healthy Families” was not affordable to the family.

Families pay premiums for coverage of their child or children in “Healthy Families” and families that fail to pay are disenrolled.

CBO Analysis of Citizenship Issues in Most Recent House-Passed SCHIP Bill

Congressional Budget Office (CBO) Director Peter Orszag recently made the following statement concerning recent changes in the SCHIP bill (HR.3963) regarding the bill’s provisions to prevent illegal immigrants from receiving benefits:

"Virtually all of the people who will be picked up are citizens," Orszag said. "Any verification system will not be absolutely airtight perfect. ... Our analysts believe there wasn't a problem to begin with." He added that the citizenship verification requirements in the most recent version of the SCHIP bill "are probably as good as you're going to get." In addition, he said that the \$1.4 billion cost over five years is almost entirely attributable to verifying the citizenship of eligible beneficiaries.

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Attachment A

States with Projected Short-Falls of SCHIP Funding in FFY 2008¹

Shortfall State	Projected Shortfall in Millions	2008 Month of Shortfall
Alaska	\$11.8	March
Arkansas	\$16.6	August
California	\$342.5²	June
Georgia	\$199.9	March
Illinois	\$253.2	March
Iowa	\$35.8	March
Louisiana	\$3.9	September
Maine	\$17.3	March
Maryland	\$88.7	March
Massachusetts	\$157.3	March
Minnesota	\$41.6	April
Mississippi	\$55.8	April
Missouri	\$44.2	May
Nebraska	\$14.1	May
New Jersey	\$191.1	March
North Carolina	\$49.5	June
North Dakota	\$4.9	May
Ohio	\$11.9	September
Oklahoma	\$21.5	July
Rhode Island	\$44.1	March
South Dakota	\$0.7	September

¹ Congressional Research Service. *CRS Report for Congress: Provision of Temporary FY2008 SCHIP Allotments*. RN22739. October 12, 2007.

² California estimate is \$265 million.